THE PRINCIPLES OF INDUSTRIAL EFFICIENCY APPLIED TO THE FORM OF CORPORATE ORGANIZATION

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Among the most widely acknowledged principles of efficiency engineering and common sense are the two,—that responsibility must be closely related to ability, and that reward must be closely related to service. It has also been many times insisted upon that the efficiency of the methods in the ranks of a company cannot be expected to rise above the standards of efficiency laid down and lived up to by those who are at the head.

The last ten years have seen the development of many systems of management and wage payment which find their origin in the effort to make practical applications of these principles. Some of these systems include profit sharing for the wage-earner and some do not, but it cannot yet be maintained that profit sharing is necessary to them.

Not so much thought has been given to the application of these principles to the actual make-up of the company itself. The two principles, that responsibility must be related to ability, and that reward must be related to service rendered, find their parallels in the two old problems which have faced most concerns established for more than a generation—to wit, how to keep the voting control in the hands of those acquainted with and interested in the business, and how to give a fair share of the profits to those of the leaders in the concern who do not hold a significant amount of stock. It is with this special part of the big question of industrial efficiency that this paper deals.

To simplify the problem let us first consider the established company in which the extreme risks of a new venture have been met and passed, so that the capital invested in it is subjected to no more than a normal business risk; we can later take up the question of extra hazard with some of the field cleared away. When the voting control of such a business is in the hands of a few men inti-

mately connected with the business, success depends upon the character of these men. If they are the founders of the business, there is little doubt of their ability to carry it on, though difficulties may arise with advancing age. But if they are sons of founders, it will not always happen that their abilities for that particular business fit them for the powers and responsibilities which go with the voting control. When, through the inheritance laws and customs of our country, the vote has been scattered among the daughters and sons-in-law of the second and third generations, the problem frequently becomes acute. Here are often found glaring instances of considerable shares in the ultimate responsibility for the success of a corporation resting in the hands of those who have not the least knowledge of its needs. The corporation may be successful—not because the form of organization is calculated to help it toward success, but rather in spite of a form which at its best is no help and at its worst may be a distinct handicap. The only alternatives in such a case are for some one man to regain control, or for the control to be placed in the hands of all of the active leaders in the business. If the first alternative is chosen, the next generation is likely to present a repetition of the same problem. If the latter alternative, then some provision must be made whereby the vote should not thereafter pass out of the ranks of the active men.

Such provisions are not difficult to make. The capital interests, as such, can be represented by bonds or non-voting preferred stocks, while common stock, industrial partnership stock, or partnership certificates, can be put into the hands of leaders of the business in some proper proportion and made non-transferrable. If such partnership certificates are required to be sold to the corporation when active employment ceases, and are issued to those who newly enter the ranks of the leaders, a voting body can be maintained which shall always have the ability to correspond to its duties.

Under such circumstances the problem of reward for service rendered is made comparatively easy of solution. If on account of able management the business pays a dividend greater than is necessary to compensate for the normal business risk, the outside stockholder is being rewarded in part for services which have not been rendered; and the sales manager, the senior salesman and the department head, who have helped to earn this surplus, have not been paid in full unless by chance they happen to own stock in

due proportion to their respective values to the business. To square the books, then, the bonds or preferred stocks above mentioned should have a fixed return, calculated to make full payment for the service which capital itself renders, and any surplus which may be earned should be distributed in some form and in proper proportion among those upon whose individual efficiency the earning of such surplus depended. Since this surplus earning is frequently just that part of the total earnings which ought in every corporation to be reinvested for its growth and development, it is appropriate that the surplus should have the form of a certificate rather than cash; or, if the surplus should exceed the proper amount for reinvestment, part can be paid in cash and part in the form of certificates.

The determination of the particular employees upon the success of whose efforts the earning of a surplus depends, is a problem which must be studied with particular reference to the kind of business in question. It may be wisely approached in many cases by listing employees by name or by classes, and separating them into those whose efforts have direct influence, and those whose influence is remote. Few generalizations can help, though to characterize the profit earners as those whose work requires imagination, and the non-profit earners as those whose work does not, comes frequently near to the truth. When the distinction has been made between these two classes, some rule must be looked for to provide for future divisions. In some cases titles can be the basis of such a rule, and in other cases resort must be had to a salary minimum. The device of having some committee choose the profit sharers each year is attractive on its face, but introduces the dangerous elements of inconsistency and politics.

Profit sharing as a spur to greater efficiency is more particularly adapted to the jobs in which the coöperative spirit is an important essential. Wherever the chief need in individual effort and full efficiency can be obtained through a carefully regulated system of commission, task and bonus, or piece-work payment, profit sharing probably has little or no place. In any case, profit sharing cannot be a success where the sharers cannot see clearly the influence of their individual efforts upon the profits account, and where they have not the vision to realize the full meaning of coöperative effort.

The foregoing general principles as applied specifically to an

established concern are illustrated in the By-Laws of the Dennison Manufacturing Company, which are too long to follow this article, but which will be willingly sent to anyone interested in them.

Wherever the problem of profit sharing concerns a company just forming, or in the early stages, the element of abnormal risk to capital must be taken into account. The degree of risk will vary greatly, sometimes warranting a chance for capital to increase its value ten times in case of success to compensate perhaps for a ten-to-one chance for loss, and sometimes demanding nothing more than a liberal interest rate. But the important point is to make such a trade with capital that there will somewhere be a stopping point to the increase in its value. The peculiarities of each venture will usually dictate just what this trade with capital is. It may be that there shall be no return to the enterprisers in the business until capital has received a certain percentage, or a sliding scale may be arranged; but at some point the necessary and fair return to capital ceases and from then on the surplus will more wisely go to those who earn it. In these stages and, in fact, during the transition stage in an established business, it is wise and just that capital should have an important or perhaps the sole voice in electing the management. The sliding scale can provide for the gradual transfer of control from capital to the enterprisers, or a fixed point can be set at which the enterprisers gain full control. If reduction in earnings again places capital in jeopardy, it should again receive its vote.

The dependence of complete industrial efficiency upon the principles of industrial partnership is very real. Where absentee owners are reaping increasing harvests, beyond any justification through their efforts or the risks they assume, and where the true ultimate authority rests in the hands of stockholders entirely unfamiliar with and unskilled in the business, the most logical systems of task and bonus, or differential piece-rate, rest upon an illogical basis and will sooner or later face questions impossible to answer.